Supranational Rating Methodology

Sovereign and Public Sector

Summary

This rating methodology replaces the version published on 21 June 2024.

Scope Ratings has introduced editorial changes for some of the headlines for transparency and generic consistency and added section 3 on information and data sources. For enhanced clarity, Scope Ratings has introduced editorial changes to i) footnote 6, ii) the note for figure 1, iii) section 4.1 and iv) section 4.2.3.1. For better readability, Scope Ratings has also repositioned figure 3 and moved the notes on figures 3 and 4 to the main text. Additionally, Figure 5b was introduced to address an error on the disclosure of the categorisation of the financial profile assessment for non-capitalised institutions.

23 May 2025

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1. Scope of application

This report sets out our methodology for rating supranational entities globally. Supranational entities play an important role in international financial markets. Owned by sovereigns[1], supranationals issue bonds in global capital markets, usually lend to their borrowing member countries[2] and engage directly with the private sector in those countries via either loans, equity investments, guarantees or grants. Examples of supranationals are multilateral development banks (MDBs), supranational financial guarantors, and vehicles that provide budgetary financing.

Most supranationals are mandated to support the long-term economic development of their member countries. Supranational activities comprise pure financing including counter-cyclical and crisis lending, the provision of loans to incentivise countries to pursue reforms, and the creation and dissemination of technical assistance and research. Typical income sources include interest revenue, dividends from investments in equities and returns on debt instruments. Supranationals usually reinvest or retain income to boost capital buffers, or use income to finance the provision of grants, concessional lending, technical assistance, and operational expenses. Supranationals are therefore driven by their mandate – not by profit – and are thus important instruments for governments to achieve their policy objectives[3].

1.1 Definitions

Our methodology sets out our approach to assigning long-term and short-term issuer and debt ratings[4] in line with our ratings scale and definitions of default. Our methodology defines supranational entities as autonomous international institutions founded by at least two sovereign governments[5], usually under international law, or an inter-governmental treaty or similar agreement with a mandate to achieve a policy-oriented outcome rather than to maximise profits for shareholders[6].

Usually, supranational entities are highly capitalised; rely mostly on wholesale funding instead of deposits; typically have no recourse to a 'lender of last resort'; have no nationality and are thus exempt from national taxation laws and banking requirements, making them essentially self-regulated; often obliged to take on risks the private sector is unwilling or unable to assume, as they are not profit-driven; often not obliged to pay dividends to shareholders, allowing them to build higher risk buffers through retained earnings; and most benefit from preferred creditor status (PCS) among their sovereign borrowers. Some have private shareholders while others have no equity or even a balance sheet and thus operate as agents of governments with recourse only to their shareholders. Supranationals generally have strong credit quality and, to date, we are aware of only one supranational that has defaulted, namely, the International Investment Bank in 2024.

2. Key components

Supranational institutions have a separate legal personality from their shareholders and enjoy a broad range of privileges and immunities. This is because they are usually set up under international law and thus shielded from national jurisdictions. Our approach therefore acknowledges supranationals' ability to operate and honour financial commitments independently of national legal systems, regulations and policy frameworks. At the same time, supranationals may be affected by sanctions due to the reliance on payment systems and other banking services, including for debt service. In principle, this justifies supranationals being rated higher than their respective shareholder governments. In addition, our approach balances i) the diverse universe of supranational entities, accounting for their distinct institutional setups; and ii) the operational considerations of supranationals that are distinct to those of commercial entities.

We therefore distinguish between supranationals that are i) capitalised and derive their creditworthiness primarily via their intrinsic credit profile (mostly multilateral development banks); and ii) not capitalised and derive their creditworthiness primarily from the support of their shareholders. These approaches thus balance the key rating drivers depending on the setup of the supranational.

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1 Few supranational institutions also have private minority shareholders and/or other supranationals.
2 Supranationals may also lend to non-members if this is in the interest of the shareholders.
3 Scope is mindful that some institutions follow a more profit-oriented approach than others.
4 In case a supranational issues an instrument that is not a senior unsecured debt obligation, this would be assessed on a case-by-case basis. For our approach outlining how we would rate hybrid debt securities, see section 8.
5 Or in turn, entities fully owned and acting on behalf of those sovereign governments.
6 This methodology is not applicable to multilateral insurance companies.

2.1 Schematic rating approach

Specifically, for capitalised institutions, we start with an assessment of the intrinsic credit profile, which is then complemented with our shareholder support assessment to determine the final rating. Conversely, for non-capitalised institutions, we begin with our shareholder support assessment which is then complemented with our assessment of the intrinsic credit profile to determine the final rating.

Figure 1: Overview of Scope's rating approach

For capitalised institutions

<table>
<tr><th colspan="4">Intrinsic Credit Profile (90%*)</th><th colspan="2">Shareholder Support (10%)</th></tr>
<tr><th>Institutional Profile (10%)</th><th colspan="3">Financial Profile (90%)</th><th rowspan="2">Shareholder Strength</th><th rowspan="2">Willingness to Support</th></tr>
<tr><td>Mandate & ESG</td><td>Capitalisation (30%)</td><td>Asset Quality (30%)</td><td>Liquidity & Funding (40%)</td></tr>
<tr><td colspan="4">aaa - ccc</td><td colspan="2">Excellent - Moderate</td></tr>
<tr><th colspan="6">Indicative Rating</th></tr>
<tr><td colspan="6">Additional considerations</td></tr>
<tr><th colspan="6">Final Rating</th></tr>
</table>

For non-capitalised institutions

<table>
<tr><th colspan="2">Shareholder Support**</th><th colspan="3">Intrinsic Credit Profile**</th></tr>
<tr><th rowspan="2">Shareholder Strength (90%)</th><th rowspan="2">Extraordinary Support (10%)</th><th>Institutional Profile (15%)</th><th colspan="2">Financial Profile (85%)</th></tr>
<tr><td>Mandate & ESG</td><td>Asset Quality (45%)</td><td>Liquidity & Funding (55%)</td></tr>
<tr><td colspan="2">aaa - ccc</td><td colspan="3">Excellent - Very Weak</td></tr>
<tr><th colspan="5">Indicative Rating</th></tr>
<tr><td colspan="5">Additional considerations</td></tr>
<tr><th colspan="5">Final Rating</th></tr>
</table>

Source: Scope Ratings. * Displayed weights in Figure 1 are approximated and for illustrative purposes, reflecting the relative importance of maximum and minimum notching after application of steps 4 and 5 of this methodology. ** For non-capitalised institutions, the indicative rating from the 'Shareholder Support' assessment ranging from aaa - ccc is mapped non-linearly to the intrinsic credit profile assessment.

Intrinsic credit profile

Here, we assess the supranational's intrinsic strength on the basis of its institutional and financial profiles. We look at the importance of the institution's mandate and ESG factors, which include its governance structures, specifically its shareholder composition and concentration and reputational risks arising from activities that may contrast with its mandate. We assess the financial profile via three categories that capture distinct operational aspects: i) capitalisation, specifically the leverage ratio and the institution's ability to generate capital; ii) asset quality, including portfolio quality and asset performance; and iii) liquidity and funding, focusing on the liquidity coverage and an issuer's funding access, flexibility and profile.

The overall intrinsic credit profile assessment is mapped to our long-term rating scale, ranging from aaa to ccc for capitalised institutions, and a seven-point scale, ranging from 'Excellent' to 'Very Weak' for non-capitalised institutions. We do not assess capitalisation for non-capitalised institutions. Details are provided in Section 4.

Shareholder support

In this part of the assessment, we analyse the strength of the supranational's key shareholders and their willingness and ability to provide support. We define key shareholders as those whose capital/ownership shares, starting with the largest shareholder, cumulatively comprise at least 75% of the supranational's subscribed capital. To determine the strength of shareholder support, we use the average capital-weighted rating of key shareholders as a proxy for shareholders' ability to provide support. For capitalised institutions, we map this indicative rating to our assessment of shareholders' willingness to provide support to determine overall shareholder support, which can provide a maximum uplift of three notches. For non-capitalised institutions the weighted average rating of key shareholders ranging from aaa - ccc is the starting point of the credit analysis, reflecting the relative importance of this rating factor. Details are provided in Section 5.

Indicative rating

In this step, we map the assessments for the intrinsic credit profile and shareholder support to determine the indicative rating, which is usually a three-notch range. The mapping tables are distinct for capitalised and non-capitalised institutions, such that a greater (lower) weight is placed on an institution's intrinsic credit profile (shareholder support) for capitalised (non-capitalised) supranationals. Details are provided in Section 6.

Additional considerations

Additional considerations can be either credit positive, neutral or negative and are usually capped at one notch to determine the final rating. They allow us to consider rating relevant factors that may not be captured consistently in the scorecard, usually because they only apply under specific circumstances or only to a subset of entities. In addition, when material credit considerations are not yet captured in the scorecard, they allow us to inform our forward-looking assessment of the supranational. Additional considerations can apply to the intrinsic credit profile or shareholder support assessments, or both. Details are provided in Section 7.

Our analysis is primarily based on institutions' governing documents, annual reports, financial statements, and investor relations presentations. In addition to quantitative metrics, the final rating depends on qualitative assessments and analytical judgement.

3. Information and data sources

Our analysis is based predominantly on public information from the issuers. We may also consider the confidential information submitted by supranational issuers actively participating in the rating process. In addition, these sources may be complemented with publications and data from supranational organisations (such as the International Monetary Fund, the European Commission, the European Central Bank, the Organisation for Economic Cooperation and Development, the World Bank, and the Bank for International Settlements), national statistical offices, national central banks, other government agencies and ministries, and other generally accepted sources. We will not rate a supranational if data is lacking in coverage or quality, or if issues place the utility of the data into question.

4. Intrinsic credit profile

We assess an institution's intrinsic credit profile based on its institutional and financial profiles. Under our approach, a strong intrinsic credit profile can result in a high rating assignment for capitalised institutions even with relatively weak shareholders. This reflects our view that supranationals are *de facto* safe assets that, depending on their intrinsic characteristics, can be rated above their respective sovereign shareholders, reflecting their status as being usually exempt from national taxation laws and immune from transfer and convertibility risks. At the same time, a weak intrinsic credit profile can lower the final rating assignment also for non-capitalised institutions.

Our assessment combines both quantitative and qualitative factors which together determine the intrinsic credit profile. The institutional profile is assessed on a five-point scale ranging from 'Excellent' to 'Weak' while the financial profile is assessed on a seven-point scale ranging from 'Excellent' to 'Very Weak'. For capitalised institutions, the financial profile assessments are refined to include a (+) (-) strength assessments for each of the categories apart from 'Excellent'. For details, please see the indicative rating section.

4.1 Institutional profile

We assess the credit risk of supranationals placing a significant emphasis on the importance of their mandate to their shareholders and associated environmental, social and governance (ESG) considerations. Supranationals are generally well-managed and set-up by their governments to support policies in the interest of their shareholders. Supranationals' mandates usually have a strong link to social and/or environmental-related outcomes, as defined by their shareholders. Our assessment of social and environmental factors under the institutional profile is thus directly linked to our assessment of the importance of the institution's mandate to its shareholders and capped at one notch positively or negatively. Governance-related issues are assessed separately and can affect the final rating by one notch positively or negatively. The overall assessment of a supranational's institutional profile is summarised in the below table. Specifically, rating notches as assessed under sections 4.1.1 and 4.1.2 are summed up and mapped to the institutional profile assessment as displayed in Figure 2.

Figure 2: Institutional profile assessment

	Institutional profile				
	Excellent	Strong	Adequate	Moderate	Weak
Rating notches	+2	+1	0	-1	-2

Source: Scope Ratings.

4.1.1 Importance of mandate

An increase (decrease) in the importance of the institution's mandate to its shareholders, or a change in the mandate itself, would be credit-positive (credit-negative). This could arise from political and economic developments. Here, we assess qualitatively i) the degree to which other public or private players can provide a substitute for the institution's main activities, including technical assistance, policy dialogue and cooperation with other national and supranational entities; ii) the growth in the number of shareholders as well as whether the institution is expanding the scope of its activities; iii) the extent to which shareholders agree to increase resources, including the retention of profits; and iv) whether the supranational extends significant amounts of grants and concessional loans that underpin its policy importance to its shareholders.

In general, an irreplaceable mandate and high strategic importance to shareholders and a resulting higher political commitment to providing support to ensure the institution's longevity, are credit positive and will be assessed as 'Very High'. Supranational entities whose activities can be partially fulfilled by other entities and/or entities with a more limited scope of activities, will be assessed as 'High'. Conversely, a declining importance of the supranational's mandate to its shareholders, a declining scope of activities and/or shareholders leaving the institution due to, for example, geopolitical tensions, will be assessed negatively and is capped at one notch, and would also limit our assessment of shareholders' willingness to provide support to 'Low'.

4.1.1.1 Social factors

A supranational's ability to deliver on a socially desirable outcome strengthens its reputation, which is not only critical for investor confidence but also its strategic importance to its shareholders, underpinning the likelihood of receiving additional financial resources if ever needed. In this regard, social risks relate to employment rights, diversity and inclusion, child labour, human rights, and the health and safety of employees and communities. In general, we believe these issues are well addressed by supranationals. Still, in the case we identify a material social risk that contrasts with the institution's mandate, we would assess this factor as 'Weak'.

Conversely, as supranationals' mandates are to achieve socially desirable outcomes as defined by their shareholders and their governance structures, we will assess positively supranationals that contribute to social issues, for example, via lending to borrowers with limited or no access to other external sources of finance, extending concessional loans or grants or financing projects with a social impact. We will also view positively supranationals whose agency in pioneering practices for the financial industry, for example, new financial instruments, project selection criteria and reporting guidelines, fosters socially-desirable outcomes that are in line with the Sustainable Development Goals. Here, we will view positively evidence of a supranational's ability to mobilise private finance to facilitate private participation in sustainability projects. In this regard, we view ESG-related treasury holdings positively. Finally, social factors may be less relevant to some supranationals, with neither credit positive nor credit negative implications, which we would assess as 'Medium/ N/A'.

4.1.1.2 Environmental factors

Most supranationals interpret climate change mitigation and adaptation as being part of their mandates[7]. Generally, they aim to contribute to the Paris Agreement's objective to "make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"[8]. Many supranationals assess projects according to social and environmental criteria, although these depend on the level of an institution's ambition and mandate.

Under this pillar, credit-relevant environmental risks include reputational risk of pursuing activities, either directly or through counterparties, that are contradictory to the institution's mandate and environmental objectives. Environmental (climate) risks relating to credit risk considerations of a supranational's loan portfolio are outlined in the asset quality section of the financial profile. Our evaluation of environmental factors will be positive to account for a supranational's agency in pioneering practices for the financial industry, for example, new financial instruments, project selection criteria and reporting guidelines, to foster environmentally-desirable outcomes in line with its mandate and/or the Paris Agreement.

Here, we will view positively evidence of a supranational's ability to align its financing activities with climate adaptation and mitigation policies and mobilise private finance to facilitate private participation in climate finance as this would contribute meaningfully to a supranational's delivery on its mandate. In this regard, we view ESG-related treasury holdings positively. Finally, environmental factors may be less relevant to some supranationals, with neither credit positive nor credit negative implications, which we would assess as 'Medium/ N/A'.

The assessment for mandate, social and environmental factors is capped at one notch overall. A 'Very High' importance of mandate will result in +1 rating notch so long as either social or environmental factors are assessed as 'Strong'. Further, a 'Very High' assessment of the importance of mandate will lead to 0 rating notches so long as social and environmental factors are not both assessed as 'Weak', in which case the overall assessment would result in -1 rating notches. A 'High' assessment of the importance of mandate will lead to no adjustment so long as social and environmental factors are not both assessed as 'Weak', in which case the overall assessment would result in -1 rating notches. If the importance of mandate is 'Declining', we adjust by -1 rating notches, regardless of the assessment for social and environmental factors.

Figure 3: Mandate, social and environmental factors

		Mandate, social and environmental factors		
Criteria	**Unit**	Strong	Medium	Weak
Importance of mandate	Qualitative	Very High	High	Declining
Social factors	Qualitative	Strong	Medium/ N/A	Weak
Environmental factors	Qualitative	Strong	Medium/ N/A	Weak
Rating notches		+1	0	-1

Source: Scope Ratings.

4.1.2 Governance

Governance is an important credit consideration common to all supranational ratings. Governance and risk management are generally strong among supranationals and therefore drive the uplift under our financial profile assessment. However, given its credit relevance, we also recognise a track record of good governance in our institutional profile assessment, with an upward adjustment of one notch. Conversely, we may adjust a credit profile downwards by up to one notch if we see governance is significantly weaker relative to peers, is deteriorating, is impeding the institution from pursuing its mandate, or does not meet self-imposed standards.

Risks include, but are not limited to i) weak governance structures, including the degree of board independence and effectiveness as well as the degree of political or external influence, reflecting the influence of certain members on decision-making boards, and ii) less compelling or weak strategies and internal controls, specifically an inability to formulate a vision and implement a strategy to ensure the predictability of activities, and/or reputational concerns arising from inadequate processes, linked to the lack of independent regulation and supervision of supranationals.

[7] Joint Report on Multilateral Development Banks Climate Finance 2020.
[8] unfccc.int/sites/default/files/english_paris_agreement.pdf Article 2.

Shareholder concentration and control

We assess possible governance-related risks by determining whether shareholders own or control a significant share of the supranational's capital and decision-making bodies, by quantitatively assessing shareholder concentration. While shareholders with a significant ownership of the institution may act as a positive force for its activities, a more concentrated ownership could also lead to i) certain shareholders exerting a disproportionate influence on the board, management and strategy of the supranational, which may cause it to conduct operations at the expense of prudent risk management practices; and ii) a supranational relying on only a few shareholders for additional support in cases of financial distress.

We measure concentration based on the shares of subscribed capital of all shareholders with the Herfindahl-Hirschman Index (HHI)[9]. A low (high) value indicates a low (high) concentration. The higher (lower) the shareholder concentration, the more (less) likely it is that we negatively adjust the supranational's rating. In addition, to account for the risk of a single shareholder holding a controlling stake, for example, with a blocking majority in decision-making bodies, we make a negative adjustment when any shareholder owns more than 25% of a supranational. We may also, however, assign a negative notch on a qualitative basis, in case a single shareholder holds a blocking majority without a minimum 25% ownership. Conversely, we may also override a negative signal from shareholder concentration/control metrics in case of a track record of very strong governance that does not give rise to stated concerns.

Strategy and internal controls

We assess the risks of changing strategies and priorities by qualitatively evaluating any changes to the supranational's activities that give rise to inconsistent strategies, such as frequent changes in overall growth or eligibility criteria for financing and activities. Here, we assess qualitatively for any conflicts between borrowing and non-borrowing member states that could affect either the supranational's strategy and implementation of its mandate or the level of shareholder support. Disagreements between regional and non-regional member states[10] could emerge, for example, over capital increases and the resulting changes in voting rights.

Finally, to account for the non-regulated nature of supranationals, we will evaluate the quality and frequency of financial reporting. We will review the governance, audit and risk management reports of the supranational to identify risks in terms of execution, delivery, process management, counterparties, products, business practices, fraud, system failure, employment practices and workplace safety. Supranationals generally manage this risk well as they produce detailed financial reports that are audited by recognised accounting firms. In case of concerns regarding the supranational's strategy or internal controls, including on capital adequacy if applicable, we will adjust the assessment negatively by one notch.

We will deduct the notch in case one of the metrics under shareholder concentration and control is assessed as 'Weak'. A 'Strong' assessment on strategy and internal controls can override potential negative signals from shareholder concentration and control. The HHI is rounded to the nearest 100. The metric for shareholder control is rounded to a full number.

Figure 4: Governance

		Governance		
Criteria	**Unit**	Strong	Medium	Weak
Shareholder concentration	HHI		≤ 1,500	> 1,500
Shareholder control	%		≤ 25	> 25
Strategy and internal controls	Qualitative	Strong	Medium	Weak
Rating notches		+1	0	-1

Source: Scope Ratings.

[9] The HHI is a common concentration measure, whereby the squares of the subscribed capital shares of the individual shareholders are summed and then multiplied by 10,000. The HHI gives a proportionately greater weight to the shares of the larger shareholders.

[10] Non-borrowing shareholders provide the institution with capital that can be leveraged and directed towards projects as per the institution's mandate and financial capacity. Non-borrowing countries thus leverage their resources, gaining knowledge and policy insights and diversify their own risks.

4.2 Financial Profile

Under this part of the analysis, we assess an institution's financial profile[11] along three categories that capture distinct operational aspects: i) capitalisation, which we will not assess for non-capitalised institutions, ranges from a positive six to negative three notch assessment; ii) asset quality, which can increase (decrease) the assessment by six (four) notches; and iii) liquidity and funding, which can increase (decrease) the assessment by eight (four) notches. For classifications per category, see Annex 10.1. We sum the total amount of assigned notches to determine the supranational's financial profile in line with the below table. For capitalised institutions, these three-notch ranges are further refined such that the top (bottom) of each range is classified with a (+) (-) strength assessment, apart from the 'Excellent' assessment, which has no (+) (-) refinement.

Figure 5a: Financial profile assessment for capitalised institutions

	Financial profile						
	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Rating notches	≥ +16	< 16; ≥ +13	< 13; ≥ +10	< 10; ≥ +7	< 7; ≥ +4	< 4; ≥ 1	< 1

Source: Scope Ratings.

Figure 5b: Financial profile assessment for non-capitalised institutions

	Financial profile						
	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Rating notches	≥ +14	< 14; ≥ +11	< 11; ≥ +8	< 8; ≥ +5	< 5; ≥ +2	< 2; ≥ -1	< -1

Source: Scope Ratings.

4.2.1 Capitalisation

The first pillar of our financial profile assessment focuses on capital adequacy. Our assessment aims to reflect a supranational's capacity to absorb losses taking into account the long-term and counter-cyclical nature of supranational operations. The leverage ratio is the cornerstone of this assessment given its simplicity, ensuring consistency and comparability across almost all supranationals. We review a supranational's *implied* leverage ratio, which assumes that it operates at maximum leverage as per its statutes or credibly enforced operating guidelines. This approach reflects a supranational's capacity to absorb losses as per its mandate and as established by its shareholders.

The ratio's numerator aggregates the supranational's capital, comprising paid-in capital, accumulated reserves and retained profits. We also include the total equity content of issued hybrid debt securities in line with our assessment described in section 8[12]. Similarly, we also include callable capital based on the considerations specified in section 4.2.1.1. We limit the overall contribution of callable capital and the total equity content of hybrid instruments to 30% of the supranational's capital (paid-in capital, accumulated reserves, retained profits, callable capital, and the total equity content of issued hybrid instruments).

The denominator refers to the supranational's *potential* mandated assets, retrieved from legal documents or credibly enforced operating guidelines[13]. Usually, operations are constrained by the size of unimpaired subscribed capital, reserves and surpluses, with a few institutions allowing for greater leverage. The higher (lower) the capitalisation, the higher (lower) our assessment. Our approach penalises a supranational whose capitalisation falls below the 7.5% threshold, as this may signal the potential for heightened leverage even though operations continue as mandated. To reflect the fact that some supranationals operate significantly more conservatively compared to their statutes or guidelines, we will adjust upwards this assessment by one notch to account for the actual leverage of the supranational provided the actual capitalisation is at least 7.5pps above the capitalisation level under maximum potential mandated assets.

4.2.1.1 Callable capital

For most supranationals, callable capital accounts for most of the shareholder capital and constitutes an obligation of shareholder governments to provide capital in emergency circumstances. While no capital calls have been made to date, raising uncertainty about whether shareholders would meet their obligations, several shareholders accounting for more than half the world's outstanding callable capital, have clarified the strong legal foundations upon which callable capital subscriptions rest, reaffirming their full recognition of and strong backing for those subscriptions[14].

[11] Unless stated otherwise, we calculate a three-year weighted average for the variables in this part of the assessment, assigning T-1 60%, T-2 30% and T-3 10%.
[12] We will assess the equity content of hybrid instruments on a case-by-case basis, following guidelines outlined in section 8.
[13] In case of multiple guidelines, including risk-based metrics, that may give rise to different maximum assets, we will use the strictest limit.
[14] Shareholder Statement on the MDB Callable Capital Exercise.

The agreements establishing supranationals usually limit the circumstances for capital calls to a situation where the supranational has faced significant losses in its portfolio, lost market access and needs a capital injection to avoid an anticipated default on its debt obligations. While most capital calls are designed to ensure timely repayment of debt obligations only rather than continued operations, it is reasonable to assume that the supranational would make a capital call sufficiently in advance of the maturity of such obligations to ensure timely payment *and* continue operations with the called capital providing loss-absorbing capacity.

Given the track record of shareholders preferring preventive capital increases in distressed scenarios, a capital call is likely only in the event in which shareholders are unable or unwilling to engage in such a general capital increase. This hypothetical scenario in which shareholders agree to a capital call rather than a capital increase to compensate for significant losses in the portfolio and/or sustained lack of market access is only conceivable in the event of the supranational losing its preferred creditor status (especially if the supranational is mostly exposed to sovereigns).

We acknowledge that, in general, but especially in such a distressed scenario, shareholders are likely to treat a capital call differently, with some having the capacity to respond to a call within days or weeks based on existing authorisations or appropriated funds, while others would be able to respond within several months, if at all. Depending on the size of the call, we would expect highly-rated shareholders to provide called funds well within one year. Still, capital calls remain politically and operationally untested and are likely only in distressed scenarios involving significant deterioration in shareholder and/or borrowing shareholder creditworthiness.

For these reasons, we include 10% of the callable capital of highly rated shareholders (AA- or above) in our capitalisation metrics. We increase the value to 25% for stronger forms of callable capital, specifically, the callable capital that highly-rated shareholders have already fully authorised and appropriated, that is, the amount of callable capital for which no additional parliamentary/legislative approval or extraordinary budget is needed. This reflects our expectation of the higher likelihood that budgeted funds for a potential call on capital would be available and disbursed in a timely fashion (e.g. several weeks), even if the timing of a capital call in a highly distressed environment may coincide with simultaneous capital calls from several institutions to which the shareholder belongs.

We do not distinguish between borrowing and non-borrowing shareholders when adjusting the value of callable capital. This is because it can be reasonably assumed that the need for a call would only arise in the event of a severely stressed portfolio. Should the shareholder be among those facing distress and thus potentially even be among those revoking the supranational's preferred creditor status, it is unlikely the shareholder would still be rated investment grade, let alone AA- or above. Conversely, a shareholder benefiting from direct lending may have an additional incentive for the supranational to continue its operations and may thus be more likely to honour a call if ever needed.

Finally, in case our assessment of shareholder willingness to provide support is 'Medium' or 'Low' (see Shareholder support), implying a track record of shareholders not responding to agreed capital increases in a timely way and/or shareholders not acting cohesively to support the institution, we would not include any callable capital within a supranational's capital.

4.2.1.2 Retained earnings

We assess a supranational's ability to generate and retain profits. Although most supranationals do not aim to maximise profits, a minimum earnings capacity is preferable, and helpful in generating internal capital buffers to weather sustained periods of distress through the cycle. Conversely, sustained periods of losses will lead to lower capitalisation. Our assessment of this driver is capped at one notch due to our mandate-driven approach. We use the adjusted return on equity, accounting for capital depletion (if any), after dividends paid and transfers to concessional arms, to measure retention of capital. To more accurately assess an institution's medium- to long-term ability to retain earnings and support capitalisation, we adjust reported net income, netting out volatile and unrealised items. These are unrealised net gains (losses) due to equity investments or fair value changes of derivative financial instruments. We would net out these items only in case these represent interim fair value adjustments and are likely to reverse in the future. A return on equity above 3% results in a positive adjustment of one notch; below 0% is negative (one notch) for the rating.

To complement our quantitative assessment, we provide a qualitative adjustment to reflect our expectations of the capitalisation trends on a forward-looking basis and/or any other factors that our scorecard does not capture that may affect our capitalisation assessment, including capital increases. This can be positive, negative or neutral, and is capped at one notch.

Figure 6: Capitalisation

Criteria	Unit	Capitalisation						
		Excellent	Very High	High	Adequate	Moderate	Low	Very Low
Capital*/ Potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5
(Capital*/ Actual assets) – (Capital*/ Potential assets)	pps				≥ 7.5			
Profitability (adjusted return on equity**)	%				≥ 3	< 3; ≥ 0	< 0	
Rating notches		+4	+3	+2	+1	0	-1	-2

*Defined as paid-in capital, reserves and retained profit, callable capital, and the total equity content of issued hybrid securities. The sum of callable capital and the total equity content of issued hybrid securities counted towards capital is limited to 30% of capital. ** Adjusted net income over capital. Weighted three-year average; all rounded to full number. Source: Scope Ratings.

4.2.2 Asset quality

Asset quality is critical to our credit ratings on supranationals. We acknowledge that supranationals' mandates compel them to increase their exposure to certain countries or sectors in times of stress, weakening their asset quality. Even so, an unexpected deterioration in their asset quality could lead to losses that erode reserves, thus negatively affecting our capitalisation assessment. In addition, risks from mandated activities vary: direct lending to sovereigns and public sector entities is usually less risky than direct lending to private sector entities, or direct investments in company equity.

It is thus critical to assess a supranational's expected risks as certain activities, geographies and sectors are riskier and more volatile. Accordingly, this methodology attributes a large weight to asset quality, which is structured around a forward-looking qualitative assessment of the portfolio's quality and a quantitative assessment of the portfolio's past performance. Together, these assessments can affect the financial profile assessment by up to six (four) notches positively (negatively).

4.2.2.1 Portfolio quality

Our assessment of the supranational's portfolio quality relates to its mandated activities, and is based on i) the materiality of certain exposure types, usually loans to sovereigns and the private sector, and guarantees, depending on the size of the exposure relative to the supranational's total assets; ii) the average borrower credit quality, adjusted for potential climate-related risks; iii) a qualitative assessment of potential protections that may reduce the ultimate credit risk borne by the supranational; and iv) concentration risks. The overall portfolio quality will thus be determined by the relative size of each exposure category, the average borrower quality, which we adjust for climate risks and mitigants, and the quality of credit enhancements as well as the level of portfolio diversification. Together, the portfolio quality can affect the financial profile assessment by up to three (two) notches positively (negatively).

The starting point of our analysis is the initial borrower quality, i.e. the weighted average borrower quality of the portfolio, which we assess on a six-point scale ranging from 'aaa' to 'b/ccc', see **Figure 7a**.

Figure 7a: Portfolio quality

Criterion	Portfolio quality					
	Excellent	Very Strong	Strong	Adequate	Moderate	Weak
Avg. borrower quality	aaa	aa	a	bbb	bb	b/ccc
Rating notches	+3	+2	+1	0	-1	-2

Source: Scope Ratings. Based on latest data.

This initial assessment can then be adjusted upwards to account for the benefits of preferred creditor status for sovereign exposures, credit protection on private sector exposures as well as widely diversified portfolios across geographies, sectors and individual counterparties. Conversely, the assessment can be adjusted downwards to account for elevated equity exposures.

Figure 7b provides *indicative* guidelines for our adjustments that inform our final assessment of the supranational's portfolio quality. The adjustments for credit protection and diversification sum to a maximum of 10 points, while elevated equity exposures can decrease the score by up to three points. Three points usually shift the borrower quality up or down by one category on the scale displayed in **Figure 7a**. Our forward-looking assessment of the supranational's portfolio quality may override the scorecard-driven assessments. Such deviation, if applicable, will be clearly communicated and is limited to one, and only in exceptional cases to two, category assessments. A stylised example is provided in Annex 10.1.

Figure 7b: Adjustments to assess portfolio quality

Adjustments		Indicator	Assessment/ Thresholds								
Credit Protection	Sovereign PCS	*% of loan portfolio*	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
	Private sector secured										
Diversification	Geography	*HHI*				≤ 1000	≤ 2000	> 2000			
	Sector	*HHI*					≤ 2000	> 2000			
	Top 10 exposures	*% of loan portfolio*				≤ 25	≤ 75				
Equity Exposure		*% of capital*						≤ 25	> 25	> 50	> 75
Points			5	4	3	2	1	0	-1	-2	-3

The adjustments for credit protection depend on the share of the portfolio and are thus overall limited to five points. HHI = Herfindahl-Hirschman index; latest data.
Source: Scope Ratings.

Portfolios with 'Excellent' asset quality and/or protection will receive a three-notch uplift. Such portfolios typically benefit from strong initial borrower quality and/or are usually characterised by either i) significant exposures to sovereigns with a high likelihood of benefiting from PCS; ii) mostly protected exposures to the private sector resulting in an overall low credit risk assessment; iii) very limited and/or well-mitigated credit-related climate risks; iv) very small to no equity exposures; and v) widely diversified exposures across individual positions, geographies and/or sectors.

Conversely, highly concentrated and unprotected portfolios of non-investment grade borrower quality and/or portfolios with high equity exposures and/or elevated and unmitigated climate credit risks will be assessed as 'Moderate' or 'Weak', resulting in a negative adjustment of up to two notches to the supranational's financial profile.

Sovereign and public sector exposures

Average borrower quality

To assess the sovereign and sovereign-guaranteed exposures and exposure to public sector entities, we use the credit ratings[15] of the sovereigns comprising the top 10 country exposures in the lending book. We determine the weight based on the exposures as a share of the total sovereign exposures of those 10 countries[16]. For public sector exposures we adjust the sovereign rating downwards, usually by two rating notches in advanced economies and three rating notches in emerging economies, as a conservative proxy of the borrower quality when this cannot be directly estimated. Finally, we do not adjust our estimate of the average borrower quality of sovereign and public sector exposures for climate-related risks as these risks are already captured via our sovereign ratings methodology. Please see the 'Climate risks' section for further details.

Portfolio protection

Sovereigns generally grant supranationals **preferred creditor status**. This is because of the supranationals' mandates, attractive financial terms, counter-cyclical nature of operations and representation of borrowers. PCS is a market practice whereby distressed sovereign governments service their obligations to some lenders while potentially defaulting on others. This practice effectively increases the seniority of supranational claims. While PCS has no legal or regulatory basis, it constitutes a market practice attributable to the incentives faced by distressed sovereign borrowers.

Despite the absence of an explicit, contractual seniority, there is evidence of an implicit seniority: the International Monetary Fund and multilateral creditors customarily rank first, ahead of government bond holders, bilateral government-to-government creditors, commercial banks and trade creditors[17]. Thus, PCS reflects the desire among defaulting sovereigns to maintain relations with multilateral institutions that continue to lend when private sector funding dries up.

As supranationals play such a role, they are likely to benefit from PCS. In this context, we assess the likelihood of the supranational benefiting from PCS based on previous exemptions from debt restructurings as well as transfer and convertibility risks on its loan

[15] In case we do not publicly rate the sovereign, we will use either private ratings, credit estimates or external ratings depending on the relative size of the exposure. Credit estimates, external credit ratings or external credit risk measures (such as information on borrower quality provided by the issuer), mapped to our rating scale, may be used for exposures constituting less than 25% of total exposure. For exposures equal to or exceeding 25% of total exposure, we use our public or private ratings.
[16] If the top 10 country exposures do not constitute 50% of total sovereign exposures, we expand this assessment to the top 20 exposures.
[17] Schlegl, M., Trebesch, C., and Wright, M. (2015), Sovereign debt repayments: Evidence on seniority, VOX CEPR.

portfolio. If that is the case, we will usually assume that all sovereign exposures benefit from PCS. A portfolio consisting of sovereign loans only that benefit from PCS would therefore be assessed as fully protected, as per the assessment in **Figure 7b**.

While PCS is clearly credit positive for supranationals, the practice of deferring and reprofiling loans to distressed sovereigns that are unable to honour their obligations in line with the original loan agreement is negative for the supranational as it implies a later repayment than originally foreseen, even if no impairment is recorded. In such circumstances, we may make a negative adjustment to our portfolio quality assessment.

Finally, we would not assess climate-resilient debt clauses (CRDCs), i.e. loan contract clauses that allow for the deferral of principal and/or interest payments to supranationals for borrowing governments affected by pre-defined climate disasters, as violating PCS. This holds as long as the CRDC is part of the original loan terms and net-present-value-neutral for the supranational. We would similarly not include gross loans with deferred principal and/or interest payments under a CRDC and the above conditions for our non-performing loan calculations.

Non-sovereign exposures

Average borrower quality

Our assessment of the risk of a supranational's non-sovereign exposures starts with an evaluation of the average borrower quality. This estimate is usually based on i) information provided by the supranational on that portion of the portfolio, including internal loan-grading systems and self-reported risk-based capital metrics, and/or ii) the credit ratings of the sovereigns comprising the top 10 country exposures in the lending book, adjusted downwards usually by three rating notches for exposures to financial institutions and usually by six rating notches for non-financial corporates, which thus serves as a conservative proxy for the private sector borrower quality when this cannot be directly estimated. When we approximate the aggregate borrower quality for non-financial corporates, we cap (floor) the assessment at bbb (ccc).

Finally, while we do not adjust exposures to financial institutions for climate-related risks, we may adjust our estimate of the average borrower quality of non-financial sector exposures for climate-related risks in case these are estimated to be material. Please see the 'Climate risks' section for further details.

Portfolio protection

Contrary to sovereign exposures, the benefits from PCS for private sector exposures are limited to the exemption from moratoria and exchange controls. However, supranational institutions can enhance or secure protection on this part of their portfolio, for example, via explicit guarantees, risk sharing structures, risk transfers, letters of comfort, collateral, pledges of accounts or shares, movable and immovable assets and inventory. In such cases, if applicable, our assessment will account for i) the size and credit quality of the assets for which the risk is reduced/ transferred, and/or ii) the ultimate guarantor to assess the extent to which credit enhancements lessen the risk surrounding the supranational's assets. Portfolio exposures secured by sovereign guarantees or highly rated guarantors (usually rated AA- and above) and credit enhancements that meaningfully reduce the portfolio risk can significantly improve our assessment of the supranational's portfolio quality, as per the assessment in **Figure 7b**.

Guarantees and other exposures

In instances where guarantees or other exposures constitute a meaningful share of the total mandated exposure of the supranational, usually above 10% of total mandated assets, we will estimate the borrower quality in line with our assessments for either sovereign and public sector exposures or private sector exposures, depending on the underlying risk exposure. The risk of the guarantee being called, however, will be assessed as highlighted under the adjustments in the liquidity and funding pillar.

Portfolio diversification

Loan portfolios of supranationals engaging predominantly with the public sector are usually concentrated. Conversely, the portfolios of supranationals lending directly to the private sector are usually more diversified. All else equal, highly concentrated portfolios are riskier. We assess a supranational's portfolio diversification by geographies and sectors using the Herfindahl-Hirschman Index, as well as by the share of the top 10 exposures. We also look at additional factors determining the level of concentration, such as Exposure Exchange Agreements[18]. Exposures that are highly diversified will positively affect our portfolio quality assessment, see **Figure 7b**.

Equity investments

A supranational mandate that either explicitly prohibits or significantly limits equity investments is positive for our assessment of portfolio protection. This is because investing in the equity of private entities is riskier than providing loans, due to not only the inherent risk of bankruptcy but also the volatility of share values. We assess the materiality of these exposures relative to capital, in line with Figure 7b, and compare the ratios to the peer group. Realised and unrealised gains and losses can also inform on the institution's track record and risk appetite.

Climate risks

Supranational entities are exposed to climate-related credit risk, primarily through their loan portfolios (but also their treasury portfolio). Climate risk comprises transition and physical risks. Transition risks capture the risk that the borrower's ability to honour obligations vis-a-vis the supranational may be materially affected by climate-related regulatory changes, a change in demand patterns, price changes and/or asset stranding driven by the transition towards a low-carbon economy. Conversely, physical risks may affect the borrower's ability to repay due to chronic or acute physical changes, such as flooding, wildfires, droughts, and extreme heat.

We assess climate-related credit risks by adjusting our estimates of the borrower quality for each asset class on an aggregate basis. We aim to identify climate-related credit risks that exceed those already captured under our initial borrower quality assessment and consider mitigating factors and specific policies that reduce or eliminate identified risks.

Exposure

Our initial borrower quality assessment for sovereign and sovereign-guaranteed exposures usually relies on our sovereign ratings or credit estimates, which directly incorporate transition and physical climate factors in line with our sovereign rating methodology. To avoid double-counting, we thus do not further adjust our estimate of the borrower quality since our ratings/estimates of the borrower quality for sovereign borrowers directly include climate risks.

Similarly, we use our sovereign ratings as inputs when we approximate the credit quality of other public sector borrowers. When we estimate the borrower quality for public sector borrowers other than sovereigns, we assume that climate factors are sufficiently captured on aggregate given our top-down, framework-driven approach for rating government-related entities and sub-sovereigns, with a correspondingly relatively high weight on the sovereign rating anchor.

Moreover, for exposures to financial institutions, we assume that banks typically exhibit widely diversified portfolios across geographies and sectors, resulting in climate risks that can be approximated via the sovereign rating when estimating the initial borrower quality. Hence, we also do not identify climate risks for these exposures beyond the factors already captured under the initial borrower quality assessment (usually three notches below the average sovereign rating).

Finally, while we also use our sovereign ratings as inputs to approximate the borrower quality of non-financial corporate sector exposures, climate-related credit risks can vary significantly between corporate sectors and geographies. We may thus adjust our initial estimate of the borrower quality at the portfolio level (usually already six notches below the sovereign rating) by up to two notches negatively depending on the share of the portfolio that we identify as having high climate risks.

We use the following framework and assumptions to identify these risks:

a) Physical risks, non-financial corporate sector

To assess physical risks, we use the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index Scores. We will usually rely on the top 20 country exposures and extrapolate physical risks for the remainder of the portfolio. We classify countries by risk category via percentiles and assume that the supranational's physical risk of its non-financial private sector exposure is correlated with the overall physical risk score of the country, as per the assessment in **Figure 8**[19].

[18] Under an Exposure Exchange Agreements, a supranational swaps a portfolio of assets against another supranational's portfolio of assets of the same credit quality but with different exposures, thus diversifying its underlying risks.
[19] For example, a supranational's private sector exposure in a country assessed as being in the 60th percentile of the distribution of the ND-GAIN Country index, is assumed to have a 25% share of high physical risks.

Figure 8: Physical risks, non-financial sector

Unit	**Physical Risk**					
	Very High	High	Medium	Moderate	Low	Very Low
Percentile (ND-GAIN)	≤ 0.10	> 0.10; ≤ 0.25	> 0.25; ≤ 0.50	> 0.50; ≤ 0.75	> 0.75; > 0.90	> 0.90
% of private sector portfolio with 'high' physical risks	100%	75%	50%	25%	5%	0.0%

Source: ND-GAIN (latest year); Scope Ratings.

b) Transition risks, non-financial corporate sector

To assess transition risks for corporate exposures we identify the share of exposures in sectors with high transition risks per UNEP FI's classification of overall transition risk per sector. We only count those exposures classified as having 'high' transition risks, which include oil & gas, power generation (oil, coal), metals & mining, petrochemicals, cement and concrete manufacture.

c) Mitigation

The materiality of climate risks, especially transition but also chronic physical risks, is also driven by the exposure's remaining maturity, with longer maturities implying higher risks. For our assessment, we thus fully reduce the exposure's gross amount in case its remaining tenor is of one year or less, assuming the exposure's short remaining life effectively mitigates climate risks. Exposures with a remaining tenor of over one year and up to seven years receive a 50% reduction, while exposures with a remaining tenor of over seven years are fully accounted for. Where the split by maturity is not available, we use the supranational's overall average outstanding maturity of its loan portfolio.

In addition, effective climate risk management can significantly mitigate or eliminate climate risks. Risk management strategies include risk avoidance via exclusion criteria and risk mitigation via strict underwriting standards, concentration limits, sector strategies and climate risk mitigation policies, such as Paris Alignment selection criteria (building blocks 1 and 2 of the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment), and risk transfers, for example, via climate risk insurance. Exposures identified as having high climate risks will be adjusted for mitigation strategies, including when those operations are aligned or supporting the transition towards alignment with the Paris Agreement.

Finally, we inform our final estimates with the results of the supranational's self-assessment of its climate risk exposure, usually per the respective Task Force on Climate-Related Financial Disclosures (TCFD) reports. In case of significant deviations, we may adjust our estimates of the identified share of the non-financial sector portfolio with high climate risks.

d) Assessment

We adjust our estimate of the overall borrower quality of the non-financial sector portfolio by one (two) notch(es) downward in case the share of the private sector portfolio identified as having high unmitigated transition or physical risks exceeds 25% (50%). A stylised case study showing these steps is provided in Annex 10.5.

4.2.2.2 Asset performance

We assess the non-performing loan (NPL) ratio over the past three years, calculated by standardising the numerator to gross loans with interest or principal payments overdue by more than 90 days. A low (high) NPL ratio reflects a supranational's low (high) risk project selection and effective (ineffective) risk management and monitoring practices and is thus assessed positively (negatively). In addition, a higher NPL ratio may also reflect a supranational's mandate, e.g. financing projects with higher credit risks. We usually complement this indicator with an analysis of the provisioning level, loans classified as stage 2 and 3 under the IFRS 9 accounting standard, and the volume of NPLs in relation to the entity's capital, if applicable.

Figure 9: Asset performance

Criterion	**Unit**	**Asset performance**					
		Excellent	Very Strong	Strong	Adequate	Weak	Very Weak
NPLs	% total loans	≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5; ≤ 7	> 7; ≤ 10	> 10
Rating notches		+3	+2	+1	0	-1	-2

Weighted three-year average rounded to one decimal. Source: Scope Ratings.

Overall, this assessment can affect the rating by up to three (two) notches positively (negatively). Finally, to complement our quantitative assessment, we provide a qualitative adjustment to reflect our expectations of the asset performance trends on a forward-looking basis. This can be positive, negative or neutral, and is capped at one notch.

4.2.3 Liquidity and funding

Liquidity and funding are the primary drivers of this assessment pillar. In case of a shock, a supranational's liquidity buffers and access to funding sources ensure its ability to continue financing operations and honouring outstanding obligations before resorting to shareholders for extraordinary support. This reflects the fact that most supranationals do not have access to the deposits and liquidity facilities that central banks provide to commercial banks. Taken together, liquidity and funding can affect the financial profile assessment by up to eight (four) notches positively (negatively).

4.2.3.1 Liquidity

Driven by their mandates, supranationals need large pools of liquidity to maintain high lending volumes. This is particularly the case for entities with continuous disbursements or that lend counter-cyclically and during periods of liquidity stress. We thus focus on whether the supranational has enough liquid assets to meet financial obligations (including cash flow obligations) to honour promised disbursements for ordinary operations over an extended period.

The key quantitative criterion is:

The liquid assets ratio

The liquid assets ratio assesses the supranational's survivability period, that is, the period over which a supranational can honour debt repayments and operate without access to financial markets. We use the actual liquidity coverage instead of internal guidelines or policies because supranationals tend to act much more conservatively than their guidelines and policies allow. The numerator of the ratio includes liquid assets, defined as readily available cash and cash equivalents and all assets available within 12 months, including committed, undrawn and unconditional credit lines from counterparties rated AA- or higher, and treasury assets with a maturity greater than 12 months that have a rating of AA- or above. We exclude expected cash inflows from lending operations as these may be unavailable for covering own obligations and disbursements during times of stress. The denominator includes all liabilities maturing within one year as well as expected annual gross disbursements in the following year in line, in with the supranational's mandate. We include the latter, conservatively, as supranationals are mandated to continue activities precisely when economic and financial circumstances deteriorate. When we cannot estimate future disbursements, including via credibly announced future disbursement plans, we use past annual disbursement amounts as a proxy.

We assess a high (low) liquid assets ratio positively (negatively). For instance, a ratio of above 100% indicates that a supranational's liquidity buffers can, on average, cover all outstanding liabilities and committed disbursements in any given year without resorting to capital markets. Conversely, a ratio of below 10% indicates liquidity buffers are insufficient to cover even about a month of outstanding liabilities and disbursements without resorting to capital markets. Our assessment penalises especially a supranational whose liquidity buffers fall below this 10% threshold. Our conservative assessment reflects our view that a minimum liquid assets coverage is necessary for supranational creditworthiness. Exceptional buffers can result in an uplift of up to four notches.

Figure 10: Liquidity

Criterion	Unit	Liquidity						
		Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10
Rating notches		+4	+3	+2	+1	0	-1	-2

Coverage ratio corresponds to approximate survivability period (in months): 100% (12); 75% (9); 50% (6); 25% (3); 15% (2); 10% (1).
Weighted three-year average rounded to nearest fifth. Source: Scope Ratings.

4.2.3.2 Funding

Supranationals do not accept deposits and usually do not have access to central bank funding facilities. For this reason, sustained capital market access, including during economically stressed scenarios, is critical for supranationals to deliver on their mandates. Most highly-rated supranationals benefit from their long-standing safe-haven status in capital markets, providing them with significant funding flexibility and access.

In our assessment, an institution's funding access and flexibility ultimately depends on the extent to which a supranational can access liquidity on favourable terms when the need arises. Benchmark issuers with an established track record of funding high volumes across diverse currencies, geographies and investor types, using a broad range of funding instruments, and a favourable regulatory treatment will be assessed positively. A strong funding position may compensate for a comparatively lower liquidity coverage, as in such cases liquidity may even be the less economical option. Conversely, funding access, flexibility and profile is assessed more moderate for supranational issuer with a more constrained market access, relying mostly on private placements and/or credit facilities, potentially with some limitations for use of funds, with an elevated average cost of funding, a narrower investor basis, and a less favourable regulatory treatment for their debt securities, among others. Finally, we will also assess the funding profile and the maturity structure of assets and liabilities, as a structural maturity gap can point to over-reliance on capital markets for continued rollover and/or on short-term funding.

The main qualitative criteria to assess funding access, flexibility and profile are:

- Frequency, size, volume, ease of placement and cost of debt
- Access to alternative sources of funding, such as committed, unused and unconditional credit facilities by financial institutions and/or national and international development banks, or private placements
- Diversification of currencies, investors, jurisdictions and funding instruments (including ESG-labelled issuance)
- Funding maturity profile and asset-liability maturity mismatches
- Regulatory treatment

See **Figure 11** for characteristics generally observable at each level of the assessment. Not all of the listed criteria need to be met for the assessment to apply.

4.2.3.3 Adjustments

To complement our assessment, we also evaluate whether there are any risks or specific strengths that could affect the liquidity profile of the supranational. These adjustments can affect the rating positively or negatively by one notch. Typically, these considerations include:

Access to reserve currency facilities

We will adjust the rating by one notch upwards if a central bank issuing a reserve currency grants the institution access to its liquidity facilities[20].

Contingent liabilities and guarantees

Supranationals use guarantees (to pursue their mandates, which may drain funds during periods of stress and thus increase liquidity risk. Here, we assess guarantees and contingent liabilities relative to liquid assets as defined above. If these are significant, for instance, above 15% of liquid assets, and the guarantees are likely to be drawn upon, we could make a negative **adjustment.**

Other risks

Risks related to changes in interest rates, foreign currencies, derivatives and collateral are generally well managed by supranationals, reflecting their strong governance and risk management practices. In case we identify a material risk or deviations from industry best practices in the institution's risk management, this could result in a negative one notch adjustment. Finally, we could also make a negative adjustment for pre-dominantly wholesale-funded institutions in case of sustained periods without capital market funding activities.

[20] Currency is included in the IMF's basket to value its Special Drawing Rights.

Figure 11: Funding access, flexibility and profile

Assessment	Funding						
	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Description	Global benchmark issuer; large issuance volume and frequent issuer; very favourable regulatory treatment; excellent management of asset-liability mismatches; multiple funding currencies or no currency mismatch; stable or growing gross funding volumes	Benchmark issuer; large issuance volume or frequent issuer; very favourable regulatory treatment; strong management of asset-liability mismatches; multiple funding currencies or no currency mismatch; stable or growing gross funding volumes	Strong access to public debt capital markets; relatively large issuance volume or frequent issuer; favourable regulatory treatment; some asset-liability mismatches; multiple funding currencies or no currency mismatch; stable or growing gross funding volumes	Adequate access via public debt capital markets, private placements and/or credit lines; lower frequency and/or volume; first or second-best regulatory treatment; asset-liability and/or currency mismatches; broadly stable gross funding volumes	Broadly adequate access via public debt capital markets, private placements and/or credit lines; lower frequency and/or volume; emergency credit lines with other institutions; second-best regulatory treatment; significant asset-liability and/or currency mismatches; declining gross funding volumes, for example, due to an expected wind-down of operations and/or lack of permanency of funding operations	Limited access to public debt capital markets; some access via private placements, although at relatively high cost and/or some access to funding via credit lines	No access to public or private debt capital markets at competitive cost; only very restricted access to credit lines
Rating notches	+4	+3	+2	+1	0	-1	-2

Source: Scope Ratings.

5. Shareholder support

Our assessment places an important weight on the ability and willingness of supranational shareholders to provide timely financial support, such as emergency loans or pre-cautionary capital increases. Highly rated shareholders signal to the market that the supranational's mission and activities are supported by governments with i) the strongest legal and governance frameworks; and ii) favourable access to deep and liquid capital markets. The supranational's debt securities are thus likely to benefit from an institutional framework that ensures liquidity and market acceptance, for instance, via preferential regulatory treatment, eligibility for central bank operations, and listings on recognised exchanges.

Under our approach, strong shareholder support, based on highly-rated shareholders or members, is a sufficient condition for a high rating assessment for non-capitalised institutions whereas capitalised institutions can receive significant rating uplift of up to three notches to their intrinsic credit profile assessment to determine the final rating.

5.1 Capitalised institutions

For capitalised institutions our assessment of shareholder support can result in a significant rating uplift of up to three notches to the intrinsic credit profile assessment to determine the final rating. To determine the uplift, the key shareholder rating is mapped to our assessment of shareholders' willingness to provide support. The initial estimate of the key shareholder rating is adjusted downwards by one notch in case of a meaningful overlap between the key shareholders providing support and the countries of operation. Willingness to provide support is assessed on a three-point scale of 'High', 'Medium' and 'Low'.

In case of weakening credit metrics, the supranational's ability to honour its obligations will benefit from its shareholders' ability and willingness to provide additional financial resources. The track record of general capital increases among supranationals to preserve or even increase their mandated activities and maintain strong credit metrics shows that highly-rated shareholders with a strong political commitment to the institution provide a strong form of investor assurance, given their inherent financial capacity to provide additional financial resources in case of need.

The mapping to assess strength of shareholder support is non-linear, placing a slightly higher weight on willingness than on ability to provide support. This acknowledges that shareholders of lower credit quality that are committed to an institution can still provide significant support in case of emergencies, for example, by agreeing to a capital increase. Conversely, strong shareholders less committed to an institution, may be less inclined to provide support if needed.

Figure 12: Shareholder support assessment for capitalised institutions

Shareholder support		**Ability (key shareholder rating)**		
		High	Medium	Low
Willingness	High	Excellent (+3 rating notches)	Very High (+2)	High (+1)
	Medium	Very High (+2)	High (+1)	Moderate (0)
	Low	Moderate (0)	Moderate (0)	Moderate (0)

Source: Scope Ratings.

5.1.1 Key shareholder rating

Key shareholders usually include governments that influence and determine the supranational's legal and organisational set-up and are therefore more likely to support the institution's capacity to fund its obligations. When an institution has exhausted its buffers and reserves and is considering asking shareholders for the provision of additional forms of support, including emergency loans or a capital increase, key shareholders' financial abilities, reputational considerations and political commitment to the institution will be key.

Supranationals are typically run by their own management, staffed by international civil servants, and supervised by both a board of governors and a board of directors. The board of governors has the highest decision-making authority and consists of representatives of each member country, usually a minister of finance or central bank governor/president. Decisions are reached through a vote in which each country's voting share is usually weighted based on its cumulative financial contribution to the supranational. Most supranationals allow a qualified majority to make decisions, rather than unanimity, with a blocking minority often needing more than 15%-25% of outstanding votes. This is why we define key shareholders as those whose cumulative share in subscribed capital, starting with the largest shareholder, comprises at least 75% of the supranational's subscribed capital. We use the average capital-weighted rating of key shareholders to indicate the overall strength of an institution's shareholders[21]. This reflects the fact that each shareholder's commitment is limited to its pro-rata ownership.

Figure 13: Key shareholder rating

Adj. key shareholder rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
Assessment: capitalised	High				Medium						Low						

Source: Scope Ratings.

The need to call for emergency support can reasonably be expected to occur only in instances in which material credit deteriorations in the portfolio of the institution arise. For this reason, to account for the risk that the key shareholders' *ability* is exaggerated by their weighted average rating, we make a negative adjustment of one notch in the case of a significant overlap between the key shareholders rated below AA- and the supranational's countries of operation in line with the below table. We do not include key shareholders rated AA- or above for this assessment, as the credit quality of such highly-rated shareholders is unlikely to deteriorate significantly even during financially distressed times.

Figure 14: Overlap key shareholders & countries of operation

Criterion	Unit	Overlap between key shareholders rated < AA- & countries of operation	
		Low	Medium/ High
Share of portfolio related to key shareholders rated < AA-	%	≤ 50%	> 50%
Adjustment to key shareholder rating (rating notches)		0	-1

Source: Scope Ratings. Rounded to full number.

5.1.2 Willingness to provide support

We assess the willingness of shareholders to provide support as 'High', 'Medium' or 'Low'.

Usually, we assume that key shareholders will in almost all cases have a 'High' willingness to provide support and additional financial resources if needed. The track record of capital increases, and the absence of any capital call to date, further highlight the preference of shareholders to provide capital increases over honouring (emergency) capital calls. This is because capital increases simultaneously enhance the supranational's creditworthiness and lending capacity[22]. For this reason, supranationals with a track record of capital increases or receiving timely support when needed, will be assessed as having shareholders with 'High' willingness to provide support.

In the absence of capital increases, we will also assess the share of paid-in capital to total subscribed capital as a proxy to estimate the willingness of key shareholders to provide additional resources to the institution. Although subscription of callable capital signals support from member states, a low share of paid-in to total subscribed capital may signal lower support from shareholders to provide capital if needed. Still, our assessment will not penalise institutions which have demonstrated their ability to operate on a self-sufficient basis, accumulating reserves via earnings following the initial capitalisation.

Here, we will also assess the credibility of an institution's callable capital, its guidelines and legal underpinnings as well as any additional factors that materially strengthen shareholders' commitment to the institution.

We view positively capital call mechanisms that i) allow callable capital to be used widely (not just for honouring liabilities in emergencies) but also to compensate for sustained losses; ii) clarify in advance the timeline for supranationals to receive called capital from their shareholders, with shorter timelines that are broadly aligned across all shareholders (implying a similar budgetary treatment of callable capital); iii) have strong legal underpinnings and are enforceable through international courts; and iv) specify that lending operations and/or voting rights may be suspended if a call is not honoured. Critically, a 'High' assessment of willingness to provide support is needed for callable capital to be included in our capitalisation metrics.

Conversely, we will assess willingness to provide support as 'Medium' in case i) no capital increase has been agreed since the establishment of the institution, the share of paid-in to callable capital is low, and/or the payment by shareholders to agreed

[21] We rely on private ratings or credit estimates in case key shareholders are not publicly rated. If information is limited, we assume credit quality is CCC.
[22] A capital call would be a one-off budgetary outlay as the transferred funds would be used to honour a commitment of the supranational vis-à-vis an investor.

capital increases was protracted and delayed; ii) the rules governing the capital call mechanism are vague or unclear; iii) significant disagreements between key shareholders give rise to concerns about their cohesive commitment to the institution, for example, due to sanctions or even wars; and/or iv) a significant share of voting power rests with shareholders that are not governments. Finally, we will assess willingness to provide support as 'Low' in case important shareholders do not honour their commitments to agreed capital increases in a timely way and/or openly question their membership to the institution.

5.2 Non-capitalised institutions

For non-capitalised institutions, shareholder support is the starting point of the credit analysis, whereby we derive an indicative rating through a quantitative assessment of the supranational's key shareholders or members. This indicative rating is then adjusted for any extraordinary support mechanisms for a maximum of two notches.

Figure 15: Overview of Scope's shareholder support assessment for non-capitalised institutions

Shareholder support	Assessment
Adj. key shareholder rating	aaa to ccc
Extraordinary support (rating notches)	0; +2
Assessment	aaa to ccc

Source: Scope Ratings.

5.2.1 Key shareholder rating

We assess the strength of shareholders by calculating the weighted average rating of the key shareholders of the institution, and second, adjusting this rating by one notch down in case of significant overlap between the key shareholders and the countries of operation of the supranational, see Figure 14. We use this adjusted key shareholder rating as our starting point of the assessment for non-capitalised institutions.

We will determine the key shareholder rating on the basis of variables that proxy – as best as possible – the relative relevance of shareholders or members. Variables include voting rights, guarantees, budgetary contributions or annual pledges, nominal GDP and/or the population size or similar factors.

5.2.2 Extraordinary support mechanisms

We assess additional mechanisms that could enhance the creditworthiness like explicit guarantees or guaranteed transfers by highly rated shareholders. Such credit enhancements provide investor assurance, as a call not honoured by a government is a reputational concern that casts doubt over the value of its other guarantees.

Similarly, we assess the strength of guarantee call mechanisms by qualitatively evaluating the type of commitment, its rules and procedures, and potential time to execution. Guarantee or budgetary call mechanisms that benefit from joint and several support are generally stronger than extraordinary support granted on a pro-rata basis, e.g. shareholders that pledge to compensate the supranational beyond their pro-rata share because other member countries are unable or unwilling to honour their commitments.

Here, we also capture additional support mechanisms that meaningfully strengthen the institutional setup of the supranational, for example, via extraordinary flexibility to postpone significant volumes of scheduled disbursements to mobilise additional resources to cover annual bond repayments and/or debt payment priorities. Our assessment of extraordinary support mechanisms is capped at two notches, whereby each assigned notch will be clearly identified and communicated if applicable.

Figure 16: Extraordinary support

Criteria	Unit	Extraordinary support		
		Very Strong	Strong	Adequate
Additional support mechanisms	Qualitative	Very Strong	Strong	–
Rating notches		+2	+1	0

Source: Scope Ratings.

6. Indicative rating

We first map the assessments for the institutional and financial profiles to determine the supranational's intrinsic credit profile. In a second step, this assessment is mapped against the shareholder support to determine the indicative rating, which is usually a three-notch range. The mapping tables are distinct for capitalised and non-capitalised institutions, such that a greater (lower) weight is placed on an institution's intrinsic credit profile (shareholder support) for capitalised (non-capitalised) supranationals.

6.1 Capitalised institutions

Figure 17a: Mapping institutional and financial profiles for capitalised institutions

Intrinsic Credit Profile		Institutional Profile				
		Excellent	Strong	Adequate	Moderate	Weak
Financial Profile	Excellent	aaa	aaa	aaa	aa+	aa
	Very Strong (+)	aaa	aaa	aa+	aa	aa-
	Very Strong	aaa	aa+	aa	aa-	a+
	Very Strong (-)	aa+	aa	aa-	a+	a
	Strong (+)	aa	aa-	a+	a	a-
	Strong	aa-	a+	a	a-	bbb+
	Strong (-)	a+	a	a-	bbb+	bbb
	Adequate (+)	a	a-	bbb+	bbb	bbb-
	Adequate	a-	bbb+	bbb	bbb-	bb+
	Adequate (-)	bbb+	bbb	bbb-	bb+	bb
	Moderate (+)	bbb	bbb-	bb+	bb	bb-
	Moderate	bbb-	bb+	bb	bb-	b+
	Moderate (-)	bb+	bb	bb-	b+	b
	Weak (+)	bb	bb-	b+	b	b-
	Weak	bb-	b+	b	b-	ccc
	Weak (-)	b+	b	b-	ccc	ccc
	Very Weak (+)	b	b-	ccc	ccc	ccc
	Very Weak	b-	ccc	ccc	ccc	ccc
	Very Weak (-)	ccc	ccc	ccc	ccc	ccc

Figure 17b: Mapping intrinsic credit profile and shareholder support for capitalised institutions

Indicative Rating		Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Credit Profile	aaa	aaa	aaa	aaa	aaa
	aa+	aaa	aaa	aaa	aaa / aa
	aa	aaa	aaa	aaa / aa	aa+ / aa-
	aa-	aaa	aaa / aa	aa+ / aa-	aa / a+
	a+	aaa / aa	aa+ / aa-	aa / a+	aa- / a
	a	aa+ / aa-	aa / a+	aa- / a	a+ / a-
	a-	aa / a+	aa- / a	a+ / a-	a / bbb+
	bbb+	aa- / a	a+ / a-	a / bbb+	a- / bbb
	bbb	a+ / a-	a / bbb+	a- / bbb	bbb+ / bbb-
	bbb-	a / bbb+	a- / bbb	bbb+ / bbb-	bbb / bb+
	bb+	a- / bbb	bbb+ / bbb-	bbb / bb+	bbb- / bb
	bb	bbb+ / bbb-	bbb / bb+	bbb- / bb	bb+ / bb-
	bb-	bbb / bb+	bbb- / bb	bb+ / bb-	bb / b+
	b+	bbb- / bb	bb+ / bb-	bb / b+	bb- / b
	b	bb+ / bb-	bb / b+	bb- / b	b+ / b-
	b-	bb / b+	bb- / b	b+ / b-	b / ccc
	ccc	bb- / b	b+ / b-	b / ccc	b- / ccc

Source: Scope Ratings.

6.2 Non-capitalised institutions

Figure 18a: Mapping institutional and financial profiles for non-capitalised institutions

Intrinsic Credit Profile		Institutional Profile				
		Excellent	Strong	Adequate	Moderate	Weak
Financial Profile	Excellent	Excellent	Excellent	Excellent	Very Strong	Very Strong
	Very Strong	Excellent	Very Strong	Very Strong	Very Strong	Strong
	Strong	Very Strong	Strong	Strong	Strong	Adequate
	Adequate	Strong	Adequate	Adequate	Adequate	Moderate
	Moderate	Adequate	Moderate	Moderate	Moderate	Weak
	Weak	Moderate	Weak	Weak	Weak	Very Weak
	Very Weak	Weak	Very Weak	Very Weak	Very Weak	Very Weak

Figure 18b: Mapping intrinsic credit profile and shareholder support for non-capitalised institutions

Indicative Rating		Intrinsic Credit Profile						
		Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak
Shareholder Support	aaa	aaa	aaa	aaa	aaa	aaa	aaa / aa+	aa+ / a+
	aa+	aaa	aaa	aaa	aaa	aaa	aaa / aa	aa / a
	aa	aaa	aaa	aaa	aaa	aaa / aa+	aa+ / aa-	aa- / a-
	aa-	aaa	aaa	aaa	aaa	aaa / aa	aa / a+	a+ / bbb+
	a+	aaa	aaa	aaa	aaa / aa+	aa+ / aa-	aa- / a	a / bbb
	a	aaa	aaa	aaa	aaa / aa	aa / a+	a+ / a-	a- / bbb-
	a-	aaa	aaa	aaa / aa+	aa+ / aa-	aa- / a	a / bbb+	bbb+ / bb+
	bbb+	aaa	aaa	aaa / aa	aa / a+	a+ / a-	a- / bbb	bbb / bb
	bbb	aaa	aaa / aa+	aa+ / aa-	aa- / a	a / bbb+	bbb+ / bbb-	bbb- / bb-
	bbb-	aaa	aaa / aa	aa / a+	a+ / a-	a- / bbb	bbb / bb+	bb+ / b+
	bb+	aaa / aa+	aa+ / aa-	aa- / a	a / bbb+	bbb+ / bbb-	bbb- / bb	bb / b
	bb	aaa / aa	aa / a+	a+ / a-	a- / bbb	bbb / bb+	bb+ / bb-	bb- / b-
	bb-	aa+ / aa-	aa- / a	a / bbb+	bbb+ / bbb-	bbb- / bb	bb / b+	b+ / ccc
	b+	aa / a+	a+ / a-	a- / bbb	bbb / bb+	bb+ / bb-	bb- / b	b / ccc
	b	aa- / a	a / bbb+	bbb+ / bbb-	bbb- / bb	bb / b+	b+ / b-	b- / ccc
	b-	a+ / a-	a- / bbb	bbb / bb+	bb+ / bb-	bb- / b	b / ccc	ccc
	ccc	a / bbb+	bbb+ / bbb-	bbb- / bb	bb / b+	b+ / b-	b- / ccc	ccc

Source: Scope Ratings.

7. Additional considerations

Additional considerations can be either credit positive, neutral or negative and are usually capped at one notch to determine the final rating. We will assign the mid-point rating within the three-notch indicative rating range in case of credit neutral considerations, which we expect in most instances. Conversely, in case of positive (negative) additional considerations, we will choose the top (bottom) rating of the three-notch indicative rating range.

Additional considerations allow us to consider rating relevant factors that may not be captured consistently in the scorecards, usually because they only apply under specific circumstances or only to a subset of entities. In addition, when material credit considerations are not yet captured in the scorecards, they allow us to inform our forward-looking credit assessment of the supranational. Adjustments relate to those already highlighted under the financial profile but could also relate to the below examples that may affect our views of a supranational's intrinsic credit profile and/or shareholder support, and thus, its creditworthiness. In case additional considerations apply, we will specify whether they apply to the intrinsic credit profile or shareholder support assessment.

Macro-economic environment

While our approach accounts for the counter-cyclical nature of supranationals' activities, a significant deterioration in the macro-economic environment, for example, driven by heightened economic or banking sector risks or geopolitical tensions in the countries of operation, may adversely affect the supranational's credit quality beyond those risks already captured in the scorecard. This may affect our assessments of a supranational's intrinsic profile as well as the likely support it may receive from shareholders. Our sovereign and banking sector risk assessments will inform our view in this regard.

Sensitivities

Our scorecard captures the main rating drivers to assess supranational entities. However, exceptional credit strengths or weaknesses may be under-represented by our scorecard, for example, with credit metrics significantly exceeding our applied thresholds. This may warrant, in exceptional cases, a more favourable or conservative final assessment. In addition, particularly at the lower end of the rating scale, the signals from our scorecards may be limited in capturing actual credit risks, which are typically non-linear as the credit quality deteriorates. In such instances, a more prudent assessment may inform our final rating decision. Finally, in rare instances, some of the factors captured in the scorecard may be less credit relevant than others. For example, in the case of meaningful grants or concessionary loans the asset quality assessment may be less credit relevant compared to other pillars. In such a case, we could consider an adjustment to our final credit assessment to reflect this consideration.

Operational history

Most supranationals have many years, if not decades, of operational and financial history, and thus well-established track records that inform our assessment. However, in the case of a limited track record, or instances in which a supranational's mandate and activities change to the extent that past information may not provide a good basis for expected future results, a more prudent assessment may inform our final rating decision.

Event risk

Unexpected events may also have an impact on a supranational's creditworthiness. These include, but are not limited to, exogenous shocks such as imposition of sanctions, capital controls, cyber-attacks, litigation risk, and wars.

8. Hybrid debt instruments

Hybrid debt instruments are debt instruments that have both debt and equity characteristics. A hybrid instrument typically ranks senior to equity, pari passu to all other similar hybrid debt instruments, and junior to all other current and future senior debt instruments.

The equity content of a hybrid debt instrument reflects our view on its loss-absorption capacity. Depending on its equity-like characteristics, we will assess equity content as 100%, intermediate, or zero.

We would typically expect the following conditions for a hybrid debt instrument to qualify for equity content and receive 100% equity content. The instrument would allow for i) permanent, full write-down of principal, or conversion into equity, without triggering default of the issuer, ii) non-cumulative coupon cancellation, and iii) permanence of the equity content, i.e. perpetual instruments or replacement with equivalent or higher equity content. If the instrument does not qualify for 100% or intermediate equity content, the instrument is fully treated as debt.

We include the equity content in a capitalised supranational's capital, unless the quality of an entity's capital structure is already, or would become following the hybrid debt issuance, excessively reliant on hybrid debt and/or callable capital. We limit the overall contribution from callable capital and the total equity content of issued hybrid securities to 30% of capital.

Notching

We would typically rate a hybrid debt instrument with 100% equity content issued by a supranational three notches below the issuer's intrinsic credit profile assessment or long-term issuer rating reflecting the contractual subordination, and risk of coupon cancellation and write-down of principal or conversion into equity. Conversely, for hybrid debt instruments assessed with intermediate equity content, we would typically notch down two notches, depending on the instruments' characteristics. We would notch down based on these characteristics, irrespective of whether we assign the equity content to capital, given the limit on the overall contribution of callable capital and total equity content of hybrid debt to capital.

We notch from the issuer's long-term issuer rating, rather than the intrinsic credit profile, when shareholder support, for example via a pre-cautionary capital increase, is assessed to apply before the activation of loss-absorbing or cash-conserving features of the hybrid security. In addition, when a hybrid debt instrument includes a trigger for loss-absorbing or cash-conserving features contingent on a capital call, any effects derived from the inclusion of callable capital within capital would be excluded for the purposes of deriving a rating for hybrid debt securities via notching.

The final notching of hybrid instruments can depend on additional risk characteristics, including legal obligations, economic incentives, covenants and management's strategic use of hybrids in the supranational's capital structure.

To qualify for equity content, the activation of loss-absorption or cash-conserving features, such as a write-down, conversion into equity or coupon cancellation, does not trigger a default of the issuer or cross-default on senior debt instruments. In case of a permanent write-down of principal or conversion into equity, we would rate the hybrid debt instrument at 'D' and subsequently withdraw the rating since the instrument ceases to exist. For a coupon cancellation, we would evaluate the reasons for the cancellation and assess whether this is a temporary or more permanent change in the issuer's ability to make distributions. If the reason for the coupon cancellation were a one-off event, which does not impair the issuer's future capacity to make payments, we may not change the hybrid security's rating. More specifically, we will not automatically consider the instrument to be in default. Activation of cash-conserving or loss-absorbing features would not lead to an automatic 'SD' long-term issuer rating, since it is used to derive ratings on senior debt securities. At the same time, an activation of loss-absorbing or cash-conserving features could entail a deterioration in credit fundamentals, which would be captured in the individual credit profile and/or shareholder support assessments.

9. Long-term and short-term ratings

Our Rating Definitions apply to supranational issuers and their long-term and short-term debt obligations. We rate senior unsecured debt ratings in line with the issuer ratings.

To reflect some of the specificities of supranationals (see 1.1 Definitions), we only assign foreign currency ratings. Moreover, for the avoidance of doubt, we do not consider repayment in a different currency compared to the original one a default when this is allowed under the terms and conditions of the issued bond.

See our Rating Definitions for more information on long-term and short-term rating scales. Short-term ratings are correlated with long-term ratings, with our Rating Definitions providing five possible and overlapping short-term ratings over five long-term rating categories, but also emphasize considerations related to liquidity and funding aspects.

Our evaluation of short-term credit quality is typically highly correlated with our assessment of a supranational's liquidity and funding assessment (see Liquidity and funding). When two short-term ratings can be derived from the long-term rating as per the correspondence in our rating definitions, the higher of the two short-term ratings will typically be assigned when either the liquidity or funding assessment is assessed as 'Strong' or higher.

10. Annexes

10.1 Financial profile: Category assessments

Capitalisation						
Notches	≥ 5	4	≥ 2	≥ 0	-1	≤ -2
Assessment	Excellent	Very Strong	Strong	Adequate	Moderate	Weak

Asset quality						
Notches	≥ 5	4	≥ 2	≥ 0	-1	≤ -2
Assessment	Excellent	Very Strong	Strong	Adequate	Moderate	Weak

Liquidity & Funding						
Notches	≥ 6	≥ 4	≥ 2	≥ 0	-1	≤ -2
Assessment	Excellent	Very Strong	Strong	Adequate	Moderate	Weak

10.2 Case study: Capitalised supranational

Analytical Pillar			Variables		Unit	+4	+3	+2	+1	0	-1	-2	Capitalised Supranational Value	Assessment	Notches	
Intrinsic Credit Profile (90%*)	Institutional Profile (10%)	Mandate & ESG	Mandate (50%)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	1	Strong
				Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
				Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
			Governance (50%)	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1000.0	Strong	1	Strong
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	15.0	Strong		
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
	Institutional Profile (10%)													Excellent		
	Financial Profile (90%)	Capitalisation (30%)	Capital/ Potential assets		%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	30.0	Excellent	4	Excellent
			(Capital/ Actual assets) - (Capital/ Potential assets)		pps	--	--	--	≥ 7.5	< 7.5	--	--	9.0	Excellent	1	
			Profitability (Adjusted return on equity)		%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	2.0	Moderate	0	
			Trend (-1; +1)												0	
		Asset quality (30%)	Portfolio quality	Incl. risk mitigants	Qualitative	--	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Adequate	Adequate	0	Strong
			Asset performance	NPLs	% total loans	--	≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5; ≤ 7	> 7; ≤ 10	> 10	2.0	Very Strong	2	
			Trend (-1; +1)												0	
		Liquidity & funding (40%)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	100.0	Very Strong	3	Excellent
			Funding access, flexibility and profile		Qualitative	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak	Excellent	Excellent	4	
			Trend (-1; +1)												0	
	Financial Profile (90%)													Very Strong		
Intrinsic Credit Profile (90%)														aaa		
Shareholder Support (10%)		Shareholder Strength	Weighted average rating of key shareholders**		Avg. rating	--	≥ AA-	≥ BBB-	< BBB-	--	--	--	--	AA	3	Excellent
			Share of portfolio related to key shareholders		%	--	--	--	--	≤ 50	> 50	--	0.0	Low / No adjustment		
			Adjusted key shareholder rating		Avg. rating	--	--	--	--	--	--	--	--	AA		
		Willingness to support	Willingness to support		Qualitative	--	--	High	Medium	Low	--	--	High	High		
Shareholder Support (10%)														Excellent		
Indicative Rating														aaa		
Additional considerations (-1; +1)														Neutral		
Final Rating														AAA		

* Weights are approximated and for illustrative purposes.
** Notches shown here correspond to Shareholder Support uplift given ‘Willingness to support’ is assessed as 'High', see Figure 12.

10.3 Case study: Non-capitalised supranational

		Analytical Pillar	Variables		Unit	+4	+3	+2	+1	0	-1	-2	Non-capitalised Supranational Value	Assessment	Notches	
Shareholder Support (*,**)		Key shareholder rating (90%)	Weighted average rating of key shareholders		AAA - CCC	--	--	--	--	--	--	--		aa		aa+
		Key shareholders & exposures	Share of portfolio related to key shareholders		%	--	--	--	--	≤ 50	> 50	--	0.0	Low	0	
		Extraordinary support (10%)	Additional support mechanisms		Qualitative	--	--	Very Strong	Strong	N/A	--	--	--	Strong	1	
		Shareholder Support (*,**)												aa+		
Intrinsic Credit Profile (*,**)	Institutional Profile (15%)	Mandate & ESG	Mandate (50%)	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High	1	Strong
				Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
				Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong		
			Governance (50%)	Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	1000.0	Strong	1	Strong
				Shareholder control	%	--	--	--	--	≤ 25	> 25	--	15.0	Strong		
				Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong		
		Institutional Profile (15%)												Excellent		
	Financial Profile (85%)	Liquidity & funding (55%)	Liquid assets ratio		%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	55.0	Strong	2	Very Strong
			Funding access, flexibility and profile		Qualitative	0 Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak	Strong	Strong	2	
			Trend (-1; +1)												0	
		Asset quality (45%)	Portfolio quality	Incl. risk mitigants	Qualitative	--	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Strong	Strong	1	Very Strong
			Asset performance	NPLs	% total loans	--	≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5; ≤ 7	> 7; ≤ 10	> 10	0.0	Excellent	3	
			Trend (-1; +1)												0	
		Financial Profile (85%)												Strong		
		Intrinsic Credit Profile (*,**)												Very Strong		
			Indicative Rating											aaa		
		Additional considerations (-1; +1)												Neutral		
			Final Rating											AAA		

* The indicative rating from the 'Shareholder support' assessment ranging from aaa - ccc is mapped non-linearly to the intrinsic credit profile assessment.

** Weights are approximated and for illustrative purposes.

10.4 Case study: Portfolio quality

Portfolio quality (initial assessment)	Excellent	Very Strong	Strong	Adequate	Moderate	Weak
Indicative borrower quality	aaa	aa	a	bbb	bb	b

Adjustments		Indicator	Assessment/ Thresholds								
Points			+5	+4	+3	+2	+1	0	-1	-2	-3
Credit Protection	Sovereign PCS Private sector secured	*% of gross loans*	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20			
Diversification	Geography	*HHI*				≤ 1000	≤ 2000	> 2000			
	Sector	*HHI*					≤ 2000	> 2000			
	Top 10 exposures	*% of gross loans*				≤ 25	≤ 75	> 75			
Equity Exposure		*% of equity*						≤ 25	> 25	> 50	> 75

Total points	+7
Adjustments	+2 categories

Portfolio quality (final assessment)	Excellent	Very Strong	Strong	Adequate	Moderate	Weak
Notches	+3	+2	+1	+0	-1	-2

Initial borrower quality is assessed at 'bb' ('Moderate').
We estimate that approximately 40%-60% of the supranational's portfolio is well protected, either via PCS for the sovereign exposure or other guarantees and risk-transfers related to the private sector exposure. This is acknowledged with +2 points. In addition, the portfolio is highly diversified by geography (+2 points), sector (+1 point) and individual counterparty (+2 points). We also estimate that the portfolio has no significant equity exposures (0 points).
In total, we acknowledge the protection and diversification of the supranational's portfolio with 7 of a maximum of 10 points, which implies an upward adjustment of two rating categories to our initial borrower quality assessment of 'Moderate' to our final portfolio quality assessment of 'Strong'.

10.5 Case Study: Climate credit risks

Legend:

- Methodology input / assumptions
- Supranational input
- Output / calculations

Average (initial) portfolio quality

	% of total exposure	Before climate credit risk	Comment
Sovereign	20%	A-	Based on country exposures / sovereign ratings
Public Sector	30%	bbb	Adjusted by 2 notches
Financial Institutions	25%	bbb-	Adjusted by 3 notches
Non-financial corporates	25%	bb-	Adjusted by 6 notches
Total	**100%**	**bbb-**	

1. Transition risks: NFC

Sectors with high transition risks	% NFC Portfolio	Aligned with path towards Paris Agreement	High Risk (unmitigated)
Oil & Gas	10.0%	2.5%	7.5%
Power Generation (oil, coal)	5.0%	0.0%	5.0%
Metals & Mining (coal & steel)	0.0%	0.0%	0.0%
Petrochemicals, cement & concrete manufacture	5.0%	0.0%	5.0%
Total	**20.0%**	**2.5%**	**17.5%**

2. Physical risks: NFC

ND-GAIN Percentile	Physical risk assessment	% portfolio in countries	% of NFC with high climate risks*	NFC portfolio with high climate risks
0.00	Very High	0%	100%	0.0%
0.10	High	0%	75%	0.0%
0.25	Medium	10%	50%	5.0%
0.50	Moderate	15%	25%	3.8%
0.75	Low	25%	5%	1.3%
0.90	Very Low	50%	0%	0.0%
*This share is assumed and fixed.	Portfolio coverage	100%		**10.0%**
				10.0%

3. 'High' climate risks (NFC portfolio)

	% NFC portfolio
Transition risks	17.5%
Physical risks	10.0%
	27.5%

4. Adjustment for maturity

Avg. Maturity of portfolio	Adjustment
< 1Y	100%
> 1Y; < 7Y	50%
> 7Y	0%
Maturity of NFC loan portfolio*	4 years
*If unavailable, proxied with total loan portfolio.	
Adj. high climate risk exposure	**13.8%**

5. Notches adjustment to NFC borrower quality

	Notches	% portfolio high climate risks
	0 notch adjustment	≤ 25%
	-1 notch adjustment	> 25%; ≤ 50%
	-2 notch adjustment	> 50%
Adjustment (notches)	**0**	

6. Average portfolio quality (climate risk adjusted)

	% of total exposure	Before climate credit risk	After climate credit risk	Comment
Sovereign	20%	A-	A-	Climate risk incorporated via sovereign rating/estimates
Public Sector	30%	bbb	bbb	Climate risk incorporated via sovereign rating (anchor for public sector)
Financial Institutions	25%	bbb-	bbb-	Climate risk incorporated via sovereign rating and assumption of widely diversified portfolio
Non-financial corporates	25%	bb-	bb-	No adjustment since share of physical and transition risks assessed as having 'high' climate risks ≤ 25%
Total	**100%**	**bbb-**	**bbb-**	

10.6 Glossary

An overview of the selected variables and their definitions is presented below. Unless stated otherwise, we round the calculations to full numbers.

Institutional Profile

- Shareholder concentration

The concentration of shareholders equals the sum of the squared subscribed capital shares of shareholders multiplied by 10,000 to retrieve the Herfindahl-Hirschman Index. Rounded to the nearest 100.

- Shareholder control

The share of the largest shareholder per the supranational's capital structure (or other mechanism to determine ownership such as guarantees or revenue/budgetary contributions for non-capitalised institutions).

Financial Profile

Unless stated otherwise, we calculate a three-year weighted average for the below variables, assigning T-1 60%, T-2 30% and T-3 10%, and round to a full number.

- Capitalisation

Assesses the supranational's leverage assuming the maximum mandate-related assets (usually loans, guarantees and equity investments) allowed by its mandate or credibly enforced operational guidelines. Capital includes the sum of paid-in capital, surplus and reserves, retained profit, callable capital, and the total equity content of issued hybrid instruments. The sum of callable capital and total equity content of issued hybrid debt securities is limited to 30% of capital. Actual leverage uses actual outstanding mandated assets as opposed to those under the assumption of full utilisation.

- Return on equity

Net income, net of unrealised, interim net gains (losses) due to equity investments and due to fair value changes of derivative financial positions, as a share of capital (paid-in capital, surplus, reserves, callable capital and total equity content of issued hybrid debt instruments).

- Liquid assets ratio

Liquid assets include the value of cash, cash equivalents and treasury assets with a maturity of up to 12 months; treasury assets with a maturity greater than 12 months that have a rating of AA- or above (as reported by the supranational); and committed, undrawn and unconditional credit lines from counterparties rated AA- or higher. The sum of liquid assets is then divided by total liabilities maturing within 12 months plus annual disbursements. Expected cash inflows from loans are excluded. Rounded to the nearest fifth.

- Portfolio diversification

Geographical (sectoral) concentration is calculated by using the sum of squared outstanding loan shares in each of the top 10 country exposures as a percentage of total loans multiplied by 10,000 (HHI). Rounded to nearest 100. In addition, we sum the portfolio share of the top 10 single exposures. Latest data.

- Non-performing loans

The share of non-performing gross loans over total gross loans includes the total volume of loans in arrears. Rounded to nearest decimal.

Shareholder support

- Key shareholder rating

Average capital-weighted rating of key shareholders that constitute at least 75% of subscribed capital starting with largest shareholder. For non-capitalised institutions, we will determine the key shareholder rating on the basis of variables that proxy – as best as possible – the relative relevance of shareholders. Variables include voting rights, guarantees, budgetary contributions or annual pledges, nominal GDP and/or the population size or similar factors. The 75% threshold usually also applies.

- Share of portfolio related to key shareholders

Sum of total portfolio exposures on the lending side in the countries of the key shareholders rated below AA-.

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